

**Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554**

In the Matter of

Federal-State Joint Board on Universal
Service:

CC Docket 96-45

Proposals to Modify the Commission's
Rules Relating to High-Cost Universal
Service Support

Comments of Centennial Communications Corp.

Centennial Communications Corp. ("Centennial") hereby submits its comments on the high-cost funding issues raised in the Joint Board's Public Notice.¹

1. Centennial's Perspective.

Centennial provides competitive telecommunications services using both wireless and landline technologies. Centennial operates wireless systems in two clusters in the domestic United States (in the Indiana-Michigan area and the southwest Louisiana-Texas area), in Puerto Rico, and in the US Virgin Islands. Centennial also operates as a full facilities-based CLEC in Puerto Rico, with an extensive fiber network throughout the island with robust interconnection arrangements with the incumbent LEC.

Centennial also has experience with universal service issues. Centennial, of course, makes significant contributions to the universal service fund. But in addition, Centennial is certified as a rural and/or non-rural eligible telecommunications carrier ("ETC") in Indiana, Michigan, Louisiana, Mississippi, and Puerto Rico, and is currently seeking ETC status in the US Virgin Islands. Centennial was certified as an ETC in Puerto Rico in late 1997, and sought and received certification in the other areas noted, beginning in later years.

¹ Public Notice, Federal-State Joint Board on Universal Service Seeks Comment on Proposals to Modify the Commission's Rules Relating to High-Cost Universal Service Support, CC Docket No. 96-45 (released August 17, 2005).

Centennial brings a pragmatic, and in some respects unique, perspective to the issue of high cost funding, particularly funding of competitive ETCs. First, Centennial has direct experience with increasing telephone penetration in areas where it is low or non-existent – the core function of universal service. In Louisiana, for example, Centennial has carrier-of-last-resort obligations – indeed, carrier-of-*first*-resort obligations – with respect to two communities, Shaw and Blackhawk, that had no telephone service at all until Centennial was certified as an ETC. These rural areas have a small number of full-time residents and a larger number of seasonal visitors, given their proximity to areas used for recreational hunting, highly popular in that area. Centennial began service in these areas in late 2004. Prior to that time no landline telephone company had either found it in its own business interest, or been required by regulators, to serve these communities.

Centennial has similar experiences in Puerto Rico. There, the incumbent local exchange carrier (“ILEC”) has traditionally had very low penetration rates – only in the neighborhood of 75%. In order to jump-start the expansion of service around the time it was becoming an ETC, Centennial deployed a residence-oriented wireless product called HomePhone, in which a wireless phone was configured essentially as a traditional desktop telephone. HomePhone initially attracted well over 20,000 subscribers. Over time, however, customers preferred to use normal wireless service as compared to the limited-mobility HomePhone product.

This experience was and is consistent with general trends of wireless adoption, as to which Puerto Rico is further advanced than the domestic United States. The total number of wireless telephones and wireless minutes of use in Puerto Rico has grown to exceed the total number of landline telephones and landline minutes of use. At the same time, total intra-Puerto Rico landline toll minutes of use have been declining. It appears that this same situation is occurring in the domestic United States as well. According to the most recently available *Statistics of Common Carriers*, as of year-end 2003, there were approximately 149 million landline ILEC lines in service, while as of that same time there were more than 157 million wireless lines in service.²

² FCC Wireline Competition Bureau, Industry Analysis Division, 2003/2004 Statistics of Common Carriers (October 2004) at Table 2.4 (ILEC landline lines) and Table 5.6 (wireless lines).

Centennial has also learned first-hand how competition between landline and wireless services works to the benefit of consumers – including consumers who are beneficiaries of universal service support. As in most other areas of the country, wireless services in Puerto Rico do not normally distinguish between “local” and “toll” calls; instead, calls anywhere on the island are rated the same. Consumers strongly prefer this type of rating. Particularly with wireless becoming the dominant mode of communication, consumers begin to wonder why they should ever be charged any toll charges. That was a fair question. To answer it, in October 2004 Centennial introduced island-wide local calling for its landline CLEC operations in Puerto Rico. By March 2005, the ILEC in Puerto Rico bowed to reality, and proposed its own plan to eliminate all intra-Puerto Rico toll service and establish a single, island-wide local calling zone for all of its customers. Approval of that plan is now pending before Puerto Rico regulators.

2. General Observations On High-Cost Support For Competitive ETCs.

Centennial recognizes that providing high-cost support for competitive ETCs, particularly in rural areas, can be controversial. However, Centennial believes that retaining fair and equitable funding for competitive ETCs is critical to the development of a robust, healthy telecommunications infrastructure in high cost and rural areas.

Centennial would not dispute that existing high-cost landline rural ILECs may have a “natural monopoly” for fixed landline service. Running copper loops to a widely dispersed customer base can cost so much that no business will seek to enter an already-served market by duplicating the incumbent’s infrastructure. But this does not mean that competition – particularly intermodal competition – is impossible or undesirable, because intermodal competitors, such as wireless carriers, incur costs in a different way.³

³ For example, a wireless service uses electromagnetic spectrum to provide “loop” functionality. This spectrum is not free – far from it, in fact: wireless licensees typically pay dearly for spectrum rights, either at auction or in transactions with existing licensees. But once it is acquired, adding individual customers does not increase spectrum costs, the way adding new customers increases landline ILEC loop costs. Instead, adding wireless customers leads to the need to add cell sites and associated backhaul circuits. Cell sites no direct analog in the landline world, but can probably be viewed, for purposes of a cost analogy, as something like a cross between a remote switching module and a subscriber loop concentrator.

Now, it can be argued that wireless service is merely an imperfect substitute for landline, in that (for example) landline service is not subject to variations in signal strength based on weather-related factors; and wireless telephones can run out of battery power at inconvenient times. On the other hand, it can equally be argued that landline service is an imperfect substitute for wireless, in that (for example) wireless allows the consumer to use the telephone not only in the consumer's house, but also in the yard, while driving to the store, etc.; and in the case of natural disasters (such as hurricanes) it is often quicker and easier to get a wireless network up and running again than it is to recover a landline network. At their core, wireless and landline both provide essentially the same functionalities. While they are clearly *different*, the differences between the services do not unambiguously point to either one being inherently *superior*. Different customers, with their own unique needs and preferences, will reach their own decisions on that point.

That said, given that even in the domestic United States, we seem to have passed the point at which wireless accounts for *more* telephone lines than landline,⁴ it is far from obvious that, going forward, traditional landline telephony is or should be the “gold standard” against which other services are measured. To the contrary. Centennial submits that policymakers, including the Joint Board, should devote increasing attention to the question of which non-traditional network technologies – whether cellular/wireless, Internet-based, or otherwise – should be viewed as the “base case” against which universal service obligations should be judged.⁵ But even putting aside these longer-term issues, in pure, present-day universal service

⁴ See note 2, *supra*. The FCC line-count figures noted above are for year-end 2003. Beginning in late 2004, consumers could “port” their landline telephone numbers to a wireless service, which is doubtless accelerating the phenomenon of wireless substitution.

⁵ In a recent order, the Commission observed, with stark clarity: “In today’s technological environment ... **IP-based broadband networks are rapidly replacing the legacy narrowband circuit-switched network.**” In the Matter of Communications Assistance for Law Enforcement Act and Broadband Access and Services, *First Report and Order and Further Notice of Proposed Rulemaking*, ET Docket No. 04-295, RM-10865 (rel. September 23, 2005) (“*CALEA First Report and Order*”) at ¶ 11 (emphasis added). Unfortunately for landline ILECs, “the legacy narrowband circuit-switched network” is their main productive asset. Of course, the growing dominance of IP-enabled services threatens traditional wireless voice providers, such as Centennial, as well. See “The Meaning of Free Speech: Special Report: Telecoms and the Internet,” *THE ECONOMIST* (September 17, 2005) at 69. As one analyst

terms, Section 254(b)(3) directs that consumers in rural and high-cost areas “should have access to telecommunications services ... that are reasonably comparable to those services provided in urban areas.” As urban consumers increasingly rely on the availability, affordability and convenience of wireless services, the statute frankly compels the conclusion that wireless services should be available in rural and high cost areas as well.

Funding wireless competitive ETCs, therefore, simply makes sense. Wireless service – with a sufficiently robust infrastructure – is convenient and reliable. There are already more wireless lines in service than landlines, and, as just noted, Congress has decreed that consumers in rural and high-cost areas should have access to comparable services at comparable prices. So, as urban and suburban consumers increasingly rely on wireless services, rural and high-cost consumers are entitled to the same convenient, beneficial services as well. And, just like landline service, it costs wireless providers more, per customer, to provide wireless service in rural areas than in urban areas. Some measure of support, therefore, is both necessary and appropriate.

The critical question is how to determine that support. Addressing this question inevitably raises questions of the relationship between universal service policy and competition policy. From a competitive perspective, it is totally clear that all market participants should receive the same level of subsidy. Giving one carrier more money than another – or giving one carrier some money, and others none at all – puts the government’s thumb on the competitive scales, openly and blatantly, in favor of the carrier getting more money. Conceivably, some other, independent public policy might justify this direct and anticompetitive impact, but no amount of rationalization or obfuscation can make it go away.

Some suggest that wireless ETCs should get less money than the rural and high-cost ILECs with which they compete, because it costs the wireless ETCs less to provide the same services. Centennial finds it difficult to see why this is an argument *against* providing full support to wireless ETCs. The key, essential premise of this argument is that the ILECs who are

quoted in the article noted, “Voice will very rapidly cease to become a major revenue generator for all telecoms operators, fixed and mobile.” *Id.* at 70.

supposed to get *more* support are actually *inefficient* – they have been overtaken by new technology. Not even a universal service policy completely divorced from competitive concerns can rationally be construed to justify rewarding inefficiency.

In fact, competition policy and universal service policy are not in conflict on this point. Universal service policy dictates that consumers in rural and high cost areas should have access to the same services as urban and suburban consumers, and at comparable, affordable rates. Providing competitive ETCs with the same per-customer funding as the rural incumbent LEC receives simultaneously makes it possible to meet universal service objectives without distorting competition.

The conflict – and there is one – is not between universal service policy (make sure consumers in high-cost areas have affordable access to the same services available in low-cost urban areas) and competition policy (make sure markets are open to entry and consumers have a choice of providers). The conflict is between rural, high cost ILECs and efficient intermodal competitive ETCs. Judging from Centennial's experience in Puerto Rico, and from national trends in the domestic United States, over time more and more consumers are going to choose to make wireless their primary or exclusive phone service. This inevitably means less revenue, and tougher business conditions, for rural ILECs. They will almost certainly make less money than they have in the past. They will have to look for ways to economize and innovate in order to survive. And, some may not survive at all – leaving the wireless ETC as the *only* ETC for some areas – a situation in which Centennial already finds itself in Shaw and Blackhawk, Louisiana.

This type of marketplace evolution will obviously be painful for some rural ILECs. But without a doubt, if it occurs, it will be good for consumers. We can know this to a certainty, because the only way it will happen is if *consumers choose to take service from competitors rather than incumbents*. Rural ILECs will suffer by virtue of the presence of the wireless ETCs in the market only if, and only to the extent that, the wireless ETCs are able to offer affordable services that consumers want.

Centennial submits that the debate about reforming universal service will remain mired in confusion and complexity until policymakers face these facts, and reach a consensus that consumers are entitled to choose to get their basic, supported “universal services” from efficient intermodal competitors, even though that inevitably means that traditional landline carriers will suffer economically. Just as antitrust policy protects competition, not competitors, universal service policy should protect the ability of consumers to obtain quality services at affordable prices – not particular suppliers of those services.⁶

3. Comments on Reform Proposals.

Centennial offers the following observations on the various proposals to reform the high-cost funding regime appended to the Public Notice.

Centennial agrees with the underlying premise of each of the different proposals, which is that the existing universal service system is in need of reform. Centennial also agrees with the suggestion that over time, the disparate and various support regimes should be consolidated into a single, integrated mechanism for supporting those carriers who serve in high-cost areas. Administrative efficiency is plainly served by a single, integrated mechanism rather than a number of separate, piecemeal systems.

For this same reason, Centennial firmly believes that the Commission must maintain both legal and operational authority over the process of distributing universal service funds. Proposals to transfer large amounts of money to individual states for distribution to preferred carriers are an invitation to administrative nightmares. Different states will inevitably apply different criteria – or apply purportedly nationally-set criteria in different ways – leading to wide diversity among services in different areas – contrary to the requirements of Section 254. In

⁶ This does not mean that there is no conceivable public interest justification for providing assistance to rural ILECs whose traditional profitability might be eroded or destroyed by the advent of competition from wireless intermodal competitors. The public policy justification for such assistance would be akin to that used, *e.g.*, to justify the periodic imposition of high tariffs on inexpensive steel from overseas in order to protect our domestic steel industry and give it time to adapt to new market conditions. Centennial submits, however, that whether or not such telecom protectionism is a good idea or a bad idea, this kind of program is *not* contemplated by Section 254 of the Communications Act.

addition, a more decentralized system of funding distribution would inevitably make it more difficult for the Commission to ensure that federal universal service support is being used for its intended purposes.

Centennial supports the recognition that, over time, it is necessary to introduce incentives for efficiency into the universal service regime. The Commission has known for more than a decade that allowing a regulated entity to recover revenues (and universal service payments count as revenues for this purpose) based on the entity's *costs* creates perverse incentives to allow costs to rise and suppresses incentives to become more efficient and innovative.⁷ Unfortunately, the rural/high cost universal service regime is directly bound to the costs incurred by the incumbent rural ILECs. Over time, this aspect of the system has to be removed.

Just as the Commission introduced efficiency into the provision of interstate access service by regulating large ILECs via a price cap system, as opposed to a cost-based system, Centennial submits that a similar system should be adopted over time for universal service. This non-cost-based regime should have two aspects. First, the Commission should develop objective cost benchmarks, that might begin with estimates of current rural ILEC costs, but that would transition downward over time to benchmarks based on more efficient technology. This would set an upper limit on the amount of subsidy available to ETCs, that would not vary with any particular ETC's individual cost. Second, the Commission should establish a nationwide affordability benchmark – a dollar amount per month that consumers of basic telephone service can reasonably be expected to pay – and preclude the payment of universal service support to carriers that price below that level. Consumers obviously benefit from low prices, and carriers would be free to offer them – whether to respond to competition, to pass on the benefits of an efficient operation, or both. But an ETC would not be adjudged in need of extra support from the outside, so to speak, unless the lowest price the ETC can responsibly offer in the marketplace

⁷ See In the Matter of Policy and Rules Concerning Rates for Dominant Carriers, *Second Report and Order*, 5 FCC Rcd 6786 (1990).

is above the affordability benchmark. In addition to the objective cost benchmark, support would also be limited to the amount needed to bring prices down to the affordability benchmark.⁸

3. Conclusion.

Centennial submits that the universal service debate is clouded by the increasingly obvious fact that existing rural ILECs, in many cases, are not the most efficient providers of the services that the universal service system is intended to support. Again, it was the Commission itself – not any advocate for competitive ETCs – that recently, starkly stated that, “the legacy narrowband circuit-switched network” is in the process of being “replaced.”⁹ This inevitably creates strong pressures to find ways to jigger the system to make it possible to delay the inevitable adjustments that the rural ILECs will need to make in order to respond to the new technical realities of the telecommunications marketplace.


⁸ Note that by linking universal service funding to prices, not costs, the natural tendency of competition to reduce prices in the market will tend to *reduce* the level of universal service funding required. As many have observed, when a rural ILEC is entitled to collect universal service based on its reported costs, the loss of lines to competitors actual tends to increase the per-line cost of serving the remaining customers. This is simply the reflection, in the universal service context, of the perverse incentives created by cost-based regulation.

⁹ *CALEA First Report and Order*, *supra* note 3.

Centennial urges the Joint Board, and the Commission, to resist those pressures when reforming the universal service regime. To the extent that rural ILECs are entitled to protection from the impact of new, more efficient technology on their businesses, that protection should be provided separate and apart from universal service funding.

Respectfully submitted,

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